

Message Text

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ACTION EUR-12

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FM AMEMBASSY THE HAGUE
TO SECSTATE WASHDC 2623
INFO AMEMBASSY BRUSSELS
AMEMBASSY PARIS

UNCLAS SECTION 1 OF 2 THE HAGUE 2617

DEPT PASS TREASURY

USOECD, USEEC

E.O. 11652: NA
TAGS: ECON EFIN ETRD NL
SUBJECT: NETHERLANDS ECONOMIC TRENDS: SUMMARY

1. WE ARE SENDING SEMI-ANNUAL ECONOMIC TREANDS REPORT BY
POUCH THIS WEEK (WITH ADVANCE COPIES BY AIRMAIL TO STATE,
COMMERCE AND TREASURY DESKS). THE FOLLOWING IS A RESUME
OF THE REPORT'S SUMMARY AND TRENDS SECTION.

2. SUMMARY
EXPECTATIONS LAST YEAR FOR AN EARLY RECOVERY OF THE DUTCH
ECONOMY WERE NOT REALIZED. WEAK EXTERNAL DEMAND FOR DUTCH
RRODUCTS LEFT VITAL INDUSTRIAL SECTORS WITH SURPLUS CAPACITY.
THE MODEST 2.5 PERCENT REAL GROWTH OF GNP WAS THE RESULT
PRIMARILY OF FAVORABLE DOMESTIC DEMAND. ALTHOUGH UNACCEPTABLY
HIGH, THE UNEMPLOYMENT AND INFLATION RATES DECLINED TO
AMONG THE LOWEST IN THE OECD.

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THIS YEAR, TRIGGERED BY THE ANTICIPATED CYCLICAL RECOVERY
OF SOME OF THE NETHERLANDS MAJOR TRADING PARTNERS, EXTERNAL
DEMAND IS EXPECTED TO RISE BUT THE DOMESTIC MARKET SHOULD
LAG BEHIND. THE EXPECTED RESULT IS ANOTHER YEAR OF SLOW
GROWTH. EMPLOYMENT IS NOT EXPECTED TO IMPROVE, BUT INFLATION
SHOULD DROP BELOW FIVE PERCENT.

THE NEW GOVERNMENT APPEARS TO HAVE A MORE FAVORABLE ATTITUDE TOWARD BUSINESS. ITS POLICIES SHOULD BECOME EVEN CLEARER WHEN IT PRESENTS LEGISLATION SHORTLY ON PROMISED REFORMS. THESE INCLUDE EXCESS PROFIT SHARING, SELECTIVE INVESTMENT, THE OPERATION OF WORKS COUNCILS AND LAND USE. IN JUNE, WHEN IT PUBLISHES ITS SPRING REVIEW OF THE BUDGET AND ITS MACROECONOMIC PROJECTIONS THROUGH 1982, THE GOVERNMENT SHOULD REVEAL HOW MUCH RELIEF IT IS PREPARED TO EXTEND TO THE PRIVATE SECTOR.

THE OUTLOOK FOR US EXPORTS TO THE NETHERLANDS CONTINUES FAVORABLE AND WILL BE ENHANCED BY GOVERNMENT PROGRAMS TO HELP RESTRUCTURE CERTAIN INDUSTRIES, STIMULATE EMPLOYMENT AND REDUCE TAX BURDENS. US AGRICULTURAL EXPORTS TO THE NETHERLANDS, OVER TWO BILLION DOLLARS IN 1977, SHOULD REMAIN HIGH IN 1978.

THE US AND THE NETHERLANDS ARE CURRENTLY THE LARGEST DIRECT FOREIGN INVESTORS IN EACH OTHER'S TERRITORY.

3. CURRENT ECONOMIC SITUATION AND TRENDS

THE ECONOMY'S SHAKY FOUNDATION -

A LARGE SHARE OF DUTCH EXPORTS IS AIMED AT CURRENTLY DEPRESSED WORLD MARKET SEGMENTS SUCH AS SHIPYARDS, STEEL, CHEMICAL FIBERS AND PETROLEUM DERIVATIVES, WHERE THERE IS LITTLE HOPE FOR QUICK RECOVERY. AS A CONSEQUENCE THE GOVERNMENT IS DEEPLY INVOLVED IN HELPING DUTCH INDUSTRY TO COPE WITH UNCLASSIFIED

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CRISIS CONDITIONS. IT HAS ALREADY SPENT 630.5 MILLION GUILDERS ON PROGRAMS TO RESTRUCTURE THE FURNITURE, TEXTILE, MEAT PROCESSING, CHEMICAL FIBER AND STEEL INDUSTRIES AND MADE AVAILABLE 5.5 MILLION GUILDERS TO IMPROVE THE DOMESTIC LEATHER INDUSTRY. THE BIGGEST GOVERNMENT PROGRAM INVOLVES 950 MILLION GUILDERS FOR THE HEAVY ENGINEERING INDUSTRY (SHIPBUILDING, FOUNDRIES AND HEAVY MACHINERY), WHOSE RESTRUCTURING IS REGARDED AS THE LARGEST POSTWAR OPERATION TO SAFEGUARD JOBS. YET THIS SECTOR WILL NEED TO ELIMINATE 13 PERCENT OF ITS 48,000 JOBS OVER A PERIOD OF FOUR YEARS IN ORDER TO PROTECT THE REMAINING POSITIONS.

THE FAILURE OF EXPORTS TO OFFSET A 1.5 PERCENT RISE IN IMPORT VOLUME CAUSED THE NETHERLANDS TRADE ACCOUNT LAST YEAR TO TURN FROM A 1.8 BILLION GUILDER SURPLUS IN 1976 TO A 4.7 BILLION GUILDER DEFICIT. AS A RESULT THE BALANCE OF PAYMENTS SURPLUS ON CURRENT ACCOUNT DIMINISHED FROM SEVEN BILLION GUILDERS IN 1976 TO LESS THAN ONE BILLION IN 1977.

DESPITE POOR EXPORT PERFORMANCE, DEPRESSED CAPACITY UTILIZATION AND LOW CORPORATE PROFITABILITY, CORPORATE INVESTMENTS RECOVERED WELL FROM THEIR SLUMP IN 1975 AND QUOY

LAST YEAR THEY ROSE 16 PERCENT, WHICH MAY HAVE REFLECTED
EFFORTS BY INDUSTRY TO CATCH UP ON PROJECTS IT COULD NO
LONGER POSTPONE. TOGETHER PUBLIC AND PRIVATE INVESTMENT
CONTRIBUTED TO SUBSTANTIAL EXPANSION OF DOMESTIC EXPENDITURES.
BUT THE STRENGTH OF THE HOME MARKET WAS NOT ENOUGH TO BOOST
REAL GROWTH OF GNP BY MORE THAN A MODEST 2.5 PERCENT,
COMPARED TO FIVE PERCENT IN 1976 AND THE AVERAGE OF 5.5
PERCENT FROM 1964 TO 1972.

THE OUTLOOK FOR 1978 - THE GOVERNMENT'S CENTRAL PLANNING
BUREAU RECENTLY ANNOUNCED REVISED ECONOMIC PERFORMANCE FIGURES
WHICH FORECAST A WORSENING OUTLOOK FOR 1978. ALTHOUGH THE
EXPECTED INFLATION RATE WILL DROP FROM THE 6.7 PERCENT OF
1977 TO LESS THAN FIVE PERCENT IN 1978, OTHER ECONOMIC
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FACTORS WILL CONTINUE TO BE LARGELY UNFAVORABLE. GROSS IN-
VESTMENT BY BUSINESS IS EXPECTED TO EXPAND BY ONLY THREE
PERCENT AND GNP BY 2.5 TO THREE PERCENT, VIRTUALLY THE SAME AS
LAST YEAR. UNEMPLOYMENT IS NOW PROJECTED TO REACH 215,000 IN
1978 OR 5.4 PERCENT OF THE LABOR FORCE, AS COMPARED TO 204,000
OR 5.1 PERCENT IN 1977. EXPORT VOLUME, HOWEVER, WILL
INCREASE THREE PERCENT COMPARED WITH A DECLINE IN 1977.

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USOEC, USEEC

PASS DEPARTMENT OF TREASURY

TO DATE THE NEW GOVERNMENT HAS OPERATED LARGELY WITH ITS PREDECESSOR'S PROGRAMS. THE 1978 BUDGET, PUBLISHED LAST SEPTEMBER, WAS A STAND-PAT BUDGET REFLECTING THE LAST GOVERNMENT'S CARE-TAKER STATUS. NEVERTHELESS, IT CONTAINED A 1.1-BILLION-GUILDER PACKAGE OF CORPORATE AND INDIVIDUAL TAX RELIEF REFLECTING THE CONCERN OF ALL PARTIES WITH THE PLIGHT OF THE ECONOMY. SUBSEQUENTLY, IN LATE OCTOBER, WHEN CONDITIONS WERE STILL DETERIORATING, THE CARETAKER GOVERNMENT SUPPLEMENTED THE BUDGET WITH A 2.5-BILLION-GUILDER PACKAGE OF MEASURES TO CREATE WORK, SUPPORT INDIVIDUAL COMPANIES AND EASE THE BURDEN ON TAXPAYERS BY DELAYING PLANNED INCREASES IN TAXES AND SUBSIDIZING MINIMUM WAGES.

THE GOVERNMENT IS NOW PLACING ITS OWN, CONSERVATIVE STAMP ON ECONOMIC POLICIES. MOST NOTEWORTHY IS THE DECISION TO CHANGE DRASTICALLY A MEASURE TO DISTRIBUTE CORPORATE EXCESS PROFITS AMONG WORKERS. THIS REFORM HAS BEEN OPPOSED BY BUSINESS, INCLUDING THE AMERICAN CHAMBER OF COMMERCE IN THE NETHERLANDS.
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THE NEW GOVERNMENT DIVIDED THE PREVIOUS GOVERNMENT'S PROPOSAL INTO TWO BILLS. THE FIRST, PRESENTED TO PARLIAMENT IN LATE APRIL, IS A FORM OF PROFIT SHARING NOT DISSIMILAR TO THAT WHICH INDIVIDUAL EMPLOYEES OBTAIN FROM THEIR OWN COMPANIES TO THAT WHICH INDIVIDUAL EMPLOYEES OBTAIN FROM THEIR OWN COMPANIES IN THE U.S. A MAJOR CHANGE ENABLES U.S. INVESTORS TO DEDUCT THE PLANNED DISTRIBUTION OF EXCESS PROFITS FROM U.S. TAXES. THE SECOND PART OF THE LEGISLATION, TO BE PRESENTED LATER, WOULD CREATE A COMMON FUND FOR ALL DUTCH WORKERS TO BE ADMINISTERED BY TRADE UNIONS. OTHER REFORMS THE GOVERNMENT INHERITED FROM ITS PREDECESSOR WOULD COVER LAND USE, THE RELATIONSHIP OF MANAGEMENT AND WORKERS IN WORKS COUNCILS AND, FINALLY, GOVERNMENT INCENTIVES FOR PRIVATE INVESTMENT. PARLIAMENT WILL DEBATE THE LAST ITEM IN EARLY MAY.

THE MOST IMPORTANT INDICATOR OF THE GOVERNMENT'S ORIENTATION WILL BE ITS BUDGET REVIEW AND MACROECONOMIC PROJECTIONS THROUGH 1982, BOTH OF WHICH ARE TO BE DEBATED BY PARLIAMENT IN JUNE. AFTER YEARS OF EXPANSION OF THE PUBLIC SECTOR IN ABSOLUTE TERMS AND RELATIVE TO NATIONAL INCOME, THE LAST GOVERNMENT DECIDED THAT ECONOMIC HEALTH DEMANDED THAT THE GROWTH OF PUBLIC SECTOR REVENUE AS A PERCENTAGE OF NATIONAL INCOME BE REDUCED TO ONE PERCENTAGE POINT A YEAR. EVEN THE SOCIALIST MEMBERS OF THAT GOVERNMENT RECOGNIZED THAT FULL EMPLOYMENT DEPENDED ON A RECOVERY OF PRIVATE INVESTMENT. THE PLANNED REDUCTION OF PUBLIC SECTOR GROWTH MAY NOT, HOWEVER, BE ENOUGH TO AVOID A SHARP RISE IN

UNEMPLOYMENT BY 1982. THIS GOVERNMENT MAY HAVE TO CONSIDER
A FURTHER CUT.

OTHER, STRUCTURAL REFORMS MAY BE BEYOND THE GOVERNMENT'S POWER.
THESE WOULD INCLUDE LOWERING LABOR COSTS, INCREASING INDUSTRIAL
PRODUCTIVITY AND PHASING OUT WEAK BUSINESS SECTORS. PRESSURES
FOR JOB AND SOCIAL SECURITY WOULD MAKE SUCH RESTRUCTURING
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DIFFICULT EVEN FOR A GOVERNMENT WITH MORE PARLIAMENTARY SUPPORT
THAN THE PRESENT ONE. THE BACKING OF LABOR UNIONS WILL BE
NECESSARY IF THE GOVERNMENT IS TO SUCCEED IN MODERATING THE
GROWTH OF LABOR COSTS. THE PREVIOUS GOVERNMENT OBTAINED LABOR
MODERATION IN 1975 BY PROMISING TO PROTECT LABOR INCOME AND
INTERESTS THROUGH REFORMS SUCH AS PASSAGE OF THE EXCESS-
PROFITS SHARING LEGISLATION AND CHANGES IN THE WORKS COUNCIL
ACT. THIS GOVERNMENT'S DECISION TO ALTER PARTICULARLY THE FIRST
OF THESE ITEMS TO PRESERVE BUSINESS CONFIDENCE MAY INCREASE
UNION MILITANCY.
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